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SUBJECT: Commerce Minister Shahrani, Ambassador Wayne and Director  
Bill Frej visit Herat

REF: (A) Kabul 2056 (B) Kabul 3305 (C) Kabul 03570

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1.(U) SUMMARY: In a trip to Herat, Afghanistan's second largest commercial capital, a joint USG/GIROA delegation met with stakeholders to better assess Herat's economic potential and development needs. Herat Governor Dr. Ahmad Yousuf Nuristani outlined the Province's priorities for continued infrastructure investment to strengthen an east-west trade corridor. During a site visit to a USAID women's cash-for-work program, the delegation gained insight into the need to link quick-impact assistance to medium-term vocational training in order to further build capacity. The delegation also launched the third provincial office of the Afghanistan Central Business Registry, which will reduce barriers to businesses entering the formal economy, and participated in a lively roundtable of Herati industrialists offering insights on the prospects and challenges to build Herat into a commercial and trade center. The visit underscored both the vitality of the local business community and the need for concerted attention to foster the growth of Afghanistan's private sector. END SUMMARY.

THE GOVERNOR'S PERSPECTIVE

2.(U) Starting off the November 15 visit, the delegates included Minister of Commerce and Industries (MOCI) Shahrani, Coordinating Director for Development and Economic Assistance (CDDEA), Ambassador Wayne, USAID Mission Director Frej, and Parliament National Economic Committee (NEC) Chairman Hajj Aziz Ahmad Nadem. Governor Nuristani boasted of Herat Province's industrial and agricultural potential as Afghanistan's second largest commercial capital, and described further needs. In the area of agriculture, Nuristani highlighted saffron production, which sells for USD 4,000 per kilogram, and pomegranate production -- for which there is high demand in the West -- making them an excellent cash crop and solid alternative to opium poppy. He mentioned his plan to train 250 farmers and

agronomists in saffron cultivation and intention to build additional cold storage facilities for pomegranates and Herati grapes in order to facilitate exports. The governor added that there is high demand for processed cotton in Iran, and that Afghanistan has enjoyed a strong harvest this year.

3.(SBU) While Herat currently enjoys 24-hour electricity, further development of major dams would also strengthen the agriculture sector as well as experience of industry. Regarding industry, Nuristani discussed the importance of Herat City's industrial park. He also noted that large marble reserves are located 175 kilometers from the Provincial Capital, and that the 47-megawatt Selma Dam, presently under construction near the marble reserves, should supply sufficient power for on-site quarry cutting and production. Additional infrastructure investments are required to make the sector profitable. While Herat has large coal reserves, the governor expressed concern over environmental impacts. At the heart of his plans for Herat to become a commercial and trade center, Nuristani pitched construction of an East to West Highway at least to the dam and marble mines as top priority, a new exhibition hall, and expansion of the Herat airport to include a new terminal to service international flights. The road between Herat and Iran is also an important project which has Japanese and Central Asia Regional Economic Cooperation (CAREC) stakeholders funding, but the governor pointed out that completing the road will require an estimated USD 2 million for compensating landowners. (Comment: Land compensation is a Government of Afghanistan responsibility. End Comment.) Finally, Nuristani stressed the need to support Herat's institutions of higher learning, for example, through building dormitories and establishing relationships with U.S. universities. In response to Governor Nuristani's interests, Ambassador Wayne and USAID Mission Director Frej reinforced U.S. support, in particular, for agricultural initiatives, the East to West Highway, and U.S. university connections.

#### CASH FOR WORK SPURS POTENTIAL FOR VOCATIONAL TRAINING

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4.(U) In the visit to a USAID-funded women's Cash-for-Work program, delegation members gained insights into the needs of quick-impact job creation programs. This initiative sponsors 10 centers in Herat, each helping 30 of the poorest women in the district receive training in tailoring and salaries for one month. Participants are paid USD 5 to 6 per day to produce school uniforms for needy girls who could not otherwise afford the uniforms. The center produces 20 schoolgirl uniforms per day, which encourages recipient children to attend school. After one month, 30 additional women are enrolled in the program. The goal for this type of center is to both provide skills and food for money to women who need both. As a result of the visit, the program's implementers will explore the possibility of providing program graduates with sewing kits, at a cost of USD 40 to 50 each, to encourage continued skill-building and possible self-employment.

#### THIRD PROVINCIAL REGISTRY LAUNCHED

5.(U) Delegation members officially opened Afghanistan's third provincial business registry. The first provincial business registration office opened in Jalalabad, Nangarhar Province in July 2009, followed by Mazar-e Sharif, Balkh Province in October (reftels). The office in Herat will service entrepreneurs from Herat, Farah, Nimroz, and Ghor provinces, as a one-stop locale for complete business registration. These steps include obtaining a Ministry of Finance tax identification number and publishing a business name in the Ministry of Justice official gazette for a single fee of 500 Afs (or USD 10) paid directly to the Central Bank. A business registration process that once took eleven steps and several weeks in Herat has shrunk to four steps in several hours in one location, thereby decreasing opportunities for corruption and increasing the credibility of government services.

6.(U) As an added benefit, registered entrepreneurs will increase their potential to qualify for bank loans, attract investment, and accelerate customs clearances while the Afghan Government improves its official revenue base, data collection and reporting. Minister

Shahrani hailed the event as an important milestone. Herat Governor Nuristani, Member of Parliament Aziz Nadem, and Provincial Director of the Afghan Investment Support Agency (AISA) Mr. Ahmad Tamim Kakarr praised and endorsed the reform. The Ministry intends to expand this regulatory reform to the capitals of Kandahar, Khost, and Kunduz in the next months.

#### INDUSTRIALISTS SHARE THEIR VIEWS

7.(U) At the Five Star Hotel, the delegation held a roundtable discussion with businessmen, entrepreneurs, and association representatives. Participants highlighted such needs as increasing space at the Herat industrial park, strengthening security, improving access to finance and credit, reducing trade barriers such as unreasonable tariffs and import duties, and enhancing the government's role in promoting trade of local goods and services. Local businesses also highlighted needed improvements to the agriculture sector and value chains in order to improve the economy of Herat and build employment opportunities throughout the country's western region.

8.(U) As a next step, Minister Shahrani said that the Government is expanding the Ministry, creating new departments that will focus economic development at city levels to address such issues as improved trade and urban economic development. The Minister also briefed attendees on a new Trade and Tariff policy which the Cabinet developed and approved, scheduled to come into effect the first quarter of 1389 (March 2010). This policy will reduce import tariffs on inputs to production, which are currently relatively high and inhibit the development of the domestic industry. Member of Parliament Nadem said that he would raise these issues with the National Economic Council. Ambassador Wayne assured the

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participants that the U.S. Government will support the establishment of an effective and strong private sector, which will pave the way for economic development and prosperity in the regions. He explained the recently released "Afghan First" policy for US civilian and military purchases in Afghanistan, which was warmly welcomed. Governor Nursitani concluded the session by stressing that actions are underway to address many of the concerns mentioned in the roundtable. He said that the security situation has improved in recent months and that there has been a record increase in customs revenue during the past six months.

9.(SBU) COMMENT: Governor Nuristani is attuned to the vast opportunities for, and potential long-term benefit of, improving the business and investment climate in Herat. His strategic vision runs the gambit - from needed infrastructure to attracting large industry investments to Cash-for-Work projects that could make a tangible impact in the lives of many women. Even in the small-scale ventures, he has combined his vision of capitalizing on investments in the local industrial park with heartier investments in workforce development. The business community there shares an advanced understanding of the needed legislative and policy improvements that will allow not only the local economy to flourish, but for Herat to become an economic driver at the national level, and even internationally competitive. However, it was clear from the dialogue with this very vibrant group of Afghan businesspersons that it will take much ongoing work to create the right policy mix and supporting mechanisms to promote substantial growth with the private sector. END COMMENT.

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